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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 328 **January, 1988**

Business in Virginia
November and December, 1987 Data

For November 1987, all nine of the economic indicators regularly reported in Table II showed less growth than they achieved in November 1986. Furthermore, four of the nine recorded decreases: bank debits, building permits, new car registrations, and our sample of retail stores. Those November developments, however, were not evidence of a strong reaction to the October 19 stock market crash. Just the opposite: they really were evidence of no impact (yet) from the crash. For example, new car registrations fell statewide by 1.3 percent, much less than the year-to-year declines in August, September, and October, and well below the average decrease this year. Our retail sales sample's fall in sales per store of 2.6 percent was disappointing, but total taxable sales statewide (by all stores, new and long established) rose by 6.8 percent, as shown in the last column of the December Table II. Taken together the two types of retail information point to a highly competitive retail environment but with total retail spending clearly still rising in Virginia.

Another negative for Virginia in November was the dollar value of building permits in our seventeen urban areas, but the decrease was only 1.1 percent compared to last November. No big drop, and much less than the average decline in 1987. The fourth negative was bank debits, down 4.5 percent. This highly volatile series is subject to very wide monthly swings, so a mild one-month decline is not a significant indication of lowered spending plans.

Nonagricultural employment recorded a 2.4 percent gain in November, the same rate as the October advance, a sign of steady hiring of new workers by Virginia businesses. In general, the November changes in Virginia's economic indicators could easily have been generated by an environment in which no stock market crash occurred.

The December economic indicators likewise give little evidence of post-crash trauma although there were wide swings in some series. Bank debits reconfirmed its highly erratic nature with a 169.4 percent increase statewide, thanks to a huge jump in Richmond. Exceptionally large dollar amounts can and do move into accounts in Virginia banks, only to move on to another use or another place. Those exceptional dollar flows are not the result of households paying their bills or buying retail goods, so the large one-month swing cannot be read as signaling a general upturn in Virginians' consumption.

Chart I

Nine Selected Business & Economic Indicators Percentage Change

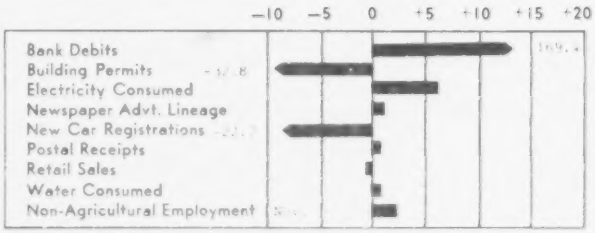

Chart II

City Indices

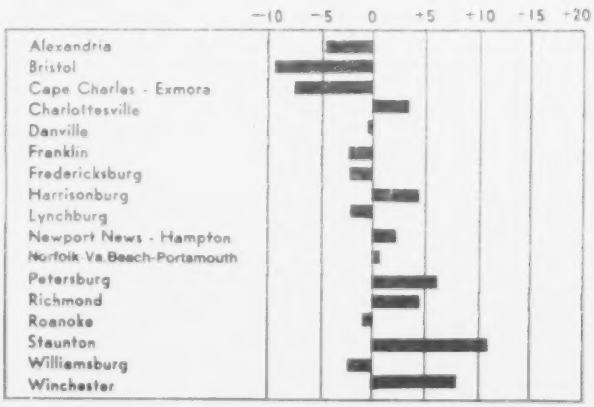

TABLE II November, 1987 Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	October NON AGRI CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	October RETAIL SALES ‡
The State		-4.5	-1.1	5.0	5.2	-1.3	2.4	0.2	-2.6	11.8
Alexandria	-1.4	34.9	319.3	6.1	N.A.	-21.0	4.0	-1.1	-6.0	18.5
Bristol	-5.1	N.A.	-78.6	8.8	-6.4	-12.3	4.3	5.1	-12.8	-6.9
Cape Charles - Exmore	-3.4	N.A.	-24.8	14.2	N.A.	-19.2	N.A.	-36.6	2.3	11.1
Charlottesville	2.7	-44.1	39.6	3.3	N.A.	4.7	1.3	-2.2	4.3	1.6
Danville	4.8	N.A.	40.6	4.5	6.1	20.6	0.0	-3.7	N.A.	1.5
Franklin	-2.9	N.A.	18.2	10.0	9.5	-29.4	N.A.	7.7	-11.3	12.9
Fredericksburg	-2.1	27.8	58.3	N.A.	3.0	-0.6	N.A.	-10.2	-7.8	16.4
Harrisonburg	6.2	9.1	-35.3	N.A.	14.1	-7.2	N.A.	16.9	-0.3	20.2
Lynchburg	-1.6	-20.7	145.9	5.9	N.A.	7.9	1.5	-5.3	-4.6	-8.7
Newport News - Hampton	1.2	N.A.	-17.6	8.6	5.3]	-13.0	2.3]	-4.0	0.9	7.7
Norfolk - Va. Beach - Portsmouth	0.0	-9.9	-22.9	-2.1		-3.6		4.4	-3.9	5.3
Petersburg	8.1	-15.2	-42.0	N.A.	54.3	-14.2	2.4]	-3.4	-0.3	26.8
Richmond	3.3	-1.4	-79.8	7.8	8.4	7.8		2.6	-6.5	20.2
Roanoke	2.3	-8.3	141.6	6.4	-0.5	5.9	2.3	N.A.	3.0	-4.9
Staunton	22.2	21.3	13.7	N.A.	N.A.	5.1	N.A.	N.A.	33.7	5.0
Williamsburg	-4.0	0.3	14.6	1.3	N.A.	-13.6	N.A.	-19.3	-2.7	11.8
Winchester	8.6	3.8	1221.2	N.A.	3.5	17.5	N.A.	N.A.	N.A.	4.8

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.
]Only total MSA data are available for these areas

N.A. — Not Available
O.O. — No Change

In contrast to the large jump in bank debits, building permits fell by 32.8 percent in December, with nine of our seventeen urban areas reporting decreases of 30 percent or more. Some of the December slide may have been due to companies cancelling plans or putting them on hold due to the crash - we have no way of knowing for sure. Bear in mind that building permits also are a very erratic series. Only two months ago, in October, permits rose by 24.1 percent. The general trend for the year, however, has been a decline, as predicted last year and regularly this year prior to the stock market crash. Through November, the cumulative decrease was 9.7 percent. The December drop makes the full year decline 11.6 percent.

New car registrations fell 22.7 percent statewide in December, and in all seventeen of our urban areas. Even that huge decline does not show much if any post-crash cancellation of plans to buy new cars. Recall that last December people rushed to buy cars to beat the tax changes, producing a 35.2 percent rise that month in new registrations compared to December 1985. The 22.7 percent drop this December still leaves the month's new car sales at a high level, 4.5 percent higher than in December 1985. We do expect new car sales to decline in Virginia in 1988. But, the December results do not really support that prediction, after adjusting for last year's tax change effects.

In December our sample of retail stores experienced a 0.6 percent drop in sales compared to December 1986. That means sales per store by a large group of established retailers were flat this Christmas. Total retail sales by all merchants, old and new, undoubtedly did rise in December. How much we will not know for sure even when the full taxable sales reports are available, since a substantial portion of the December 1986 sales got counted as January 1987 sales due to late reporting caused by January snowstorms across the state. With December 1986 under-reported, the sales tax reports will show a huge, overstated gain for December 1987, much larger than the actual rise in retail sales. An increase of anything less than a 31 percent December to December gain in the unadjusted taxable sales data will indicate the actual result was little or no increase in the real (inflation-adjusted) volume of retail goods sold.

What we do know,with January-November Department of Taxation data on taxable sales plus our retail sales sample reports, is the real (inflation-adjusted) volume of retail goods sold in Virginia is growing at its slowest pace since 1982 and the competition among stores has intensified dramatically this year. That competition will be at least as intense in 1988. A similar situation exists nationally. In December, personal consumption expenditures in 1982 dollars showed no change from December 1986. Real (inflation adjusted) durable goods demand fell by 5.7 percent in December while nondurable goods showed a real increase of only 1.9 percent compared to the preceding December.

In sum, the November and December data confirm, or at least are consistent with, Virginia's trend toward slower growth in general, and the decrease in planned construction and car purchases in particular, that was predicted for 1987 and clearly underway prior to the October stock market crash. The recent data do not give any clear indication, though, of how Virginia businesses and consumers altered their plans as a result of the stock market crash. We will not know for several months the extent to which the crash has rechanneled the course of the Virginia economy. RLP

SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I — December, 1987

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	November NON AGRI CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	TOTAL RECEIPTS
The State		915.0	145.0	158.9	116.9	127.5	140.5	87.2	299.9	373.9
Alexandria	224.0	31.1	469.5	179.2	N.A.	111.6	188.4	82.5	185.5	N.A.
Bristol	148.9	N.A.	123.8	116.2	72.7	75.1	116.1	102.2	195.2	271.8
Cape Charles - Exmore	132.3	N.A.	707.3	137.7	N.A.	56.1	N.A.	N.A.	99.7	102.3
Charlottesville	223.9	96.1	204.1	148.1	N.A.	84.5	111.0	114.3	124.8	388.9
Danville	139.2	N.A.	47.2	111.7	154.1	70.3	99.3	72.8	N.A.	326.7
Franklin	160.7	N.A.	49.0	137.8	149.1	52.5	N.A.	82.3	200.9	261.3
Fredericksburg	383.3	230.0	253.2	N.A.	165.5	130.3	N.A.	72.8	290.9	1441.7
Harrisonburg	201.5	334.0	531.7	N.A.	156.8	74.2	N.A.	159.2	211.7	373.5
Lynchburg	208.1	288.9	35.0	134.3	N.A.	69.9	99.2	114.7	271.2	433.4
Newport News - Hampton	174.1	N.A.	210.6	130.2	98.2]	79.9	139.6]	112.7	277.4	N.A.
Norfolk - Va. Beach - Portsmouth	240.5	497.8	182.8	170.5		102.4		82.1	443.8	N.A.
Petersburg	183.1	193.7	88.7	N.A.	34.5	75.4	129.5]	104.0	265.4	325.0
Richmond	203.8	1396.1	210.3	177.4	129.0	97.2		100.2	281.9	355.2
Roanoke	175.3	385.0	53.9	123.8	179.6	57.9	124.4	108.4	216.4	334.1
Staunton	193.4	108.5	62.3	N.A.	94.0	64.0	N.A.	N.A.	231.9	306.6
Williamsburg	266.4	N.A.	39.6	184.2	N.A.	123.7	N.A.	82.1	214.9	830.4
Winchester	164.1	426.5	N.A.	144.8	242.9	104.7	N.A.	N.A.	N.A.	N.A.

TABLE II — December, 1987

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	November NON AGRI CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	November RETAIL SALES ‡
The State		169.4	-32.8	6.5	1.8	-22.7	2.4	0.6	-0.6	6.8
Alexandria	-4.7	-19.5	60.7	11.8	N.A.	-30.5	4.0	-10.0	-4.3	0.2
Bristol	-9.7	N.A.	55.0	3.5	-13.2	-27.9	3.9	13.1	-22.9	1.7
Cape Charles - Exmore	-7.5	N.A.	138.5	2.7	N.A.	-51.4	N.A.	-36.3	3.3	22.9
Charlottesville	3.5	-3.4	-51.6	6.2	N.A.	-31.6	2.3	0.3	-4.0	6.5
Danville	-0.1	N.A.	-53.5	-4.6	11.8	-16.5	0.5	-12.9	N.A.	18.8
Franklin	-2.0	N.A.	-31.5	-5.7	8.6	-66.3	N.A.	-14.5	4.1	49.6
Fredericksburg	-2.0	3.2	11.4	N.A.	3.4	-26.2	N.A.	-0.7	5.2	-5.8
Harrisonburg	4.5	-13.7	206.7	N.A.	7.8	-26.2	N.A.	19.7	-0.6	32.3
Lynchburg	-2.0	-17.2	-79.2	-2.4	N.A.	-11.9	0.0	1.9	-3.7	7.8
Newport News - Hampton	3.4	N.A.	-32.3	7.8	-6.3]	-13.6	1.8]	2.0	4.2	17.4
Norfolk - Va. Beach - Portsmouth	8.6	-17.6	-46.8	6.1		-14.1		0.4	4.8	3.1
Petersburg	6.1	1.1	-9.2	N.A.	32.2	-9.0	2.5]	7.9	3.0	5.8
Richmond	4.8	333.2	48.6	3.7	11.6	-7.4		3.8	-0.6	31.1
Roanoke	-0.7	-8.3	-44.9	3.7	2.3	-26.7	2.1	10.4	-4.4	14.9
Staunton	11.0	0.8	-81.1	N.A.	6.8	-30.9	N.A.	N.A.	19.4	31.7
Williamsburg	-2.4	N.A.	-44.7	13.2	N.A.	-19.3	N.A.	-22.5	0.5	11.2
Winchester	7.7	-13.5	N.A.	5.4	3.5	-10.2	N.A.	N.A.	N.A.	22.0

TABLE III — Percent Change January - December from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	Jan.- Nov. NON AGRI CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	Jan.- Nov. RETAIL SALES ‡
The State		24.7	-15.6	7.4	2.8	-10.5	3.0	-0.1	1.8	8.9
Alexandria	2.3	39.5	86.4	11.7	N.A.	-12.2	4.1	8.8	-0.9	8.7
Bristol	-2.9	N.A.	-4.0	2.7	N.A.	-19.2	4.1	8.8	-9.2	1.0
Cape Charles - Exmore	-1.8	N.A.	6.5	4.5	N.A.	-24.5	N.A.	-8.9	2.4	9.1
Charlottesville	1.3	-7.7	23.8	8.1	N.A.	-16.4	1.7	0.4	1.9	9.5
Danville	-0.4	N.A.	4.5	4.6	N.A.	-14.2	1.0	3.2	N.A.	3.3
Franklin	-0.5	N.A.	-26.9	6.1	5.8	-60.1	N.A.	-0.7	-2.9	33.8
Fredericksburg	5.1	12.5	90.8	N.A.	11.2	-6.6	N.A.	8.5	4.8	8.7
Harrisonburg	4.9	-9.1	10.1	N.A.	7.8	-14.6	N.A.	9.4	4.4	18.8
Lynchburg	-0.2	-13.2	2.1	4.9	N.A.	-10.8	1.5	-5.0	-0.1	7.0
Newport News - Hampton	0.3	N.A.	-33.1	5.5	3.2]	-21.2	2.4]	-5.0	2.5	7.9
Norfolk - Va. Beach - Portsmouth	2.1	10.2	-32.5	5.9		-5.9		2.1	3.1	4.6
Petersburg	3.4	1.8	-22.9	N.A.	N.A.	-7.4	1.1]	6.9	4.5	7.7
Richmond	2.5	68.6	12.6	6.8	6.3	-5.9		-0.2	-0.3	13.1
Roanoke	0.8	-15.0	13.8	7.9	-0.5	-12.1	3.0	1.4	3.4	2.5
Staunton	14.7	12.4	29.2	N.A.	N.A.	-15.5	N.A.	N.A.	25.1	13.6
Williamsburg	2.3	N.A.	-40.5	7.8	N.A.	-12.6	N.A.	-9.5	5.5	13.9
Winchester	1.1	N.A.	N.A.	N.A.	-0.1	-11.0	N.A.	N.A.	N.A.	14.3

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.
;Only total MSA data are available for these areas

N.A. — Not Available
O.O. — No Change

The Virginia Economy in 1987

Economic growth decelerated in Virginia in 1987, as expected. However, the deceleration was slightly milder than we predicted. The forecast in our April issue was Virginia personal income would rise 6.5 percent in 1987. Through the first three quarters, the growth rate was 7.0 percent. Similarly, we projected payroll employment growth of 2.5 percent, but the actual rate through November has been 3.0 percent.

The major reason that Virginia outperformed our forecast was supply-side strength in construction. Total demand for structures fell in 1987, as evidenced by the 11.6 percent decrease in the dollar value of building permits in the urban areas we cover and an 8.7 percent drop in home sales, as reported by the Virginia Association of Realtors. However, the decreased demand has not yet produced lower levels of construction. As of November, construction employment statewide remained above year-ago levels; and through the first three quarters, earnings in Virginia's construction industry were up 13.3 percent compared to 1986.

That sustained strength in construction held Virginia's growth above the predicted path. A reoccurrence of that strength in 1988 is not likely - supply in that industry will yield to the pressures of lowered demand. Accordingly, a decrease in construction employment was part of our 1988 forecast in the November issue, and we now expect a 7.0 percent decline. It should be emphasized, though, that the 1988 level of construction activity still will be the third highest in Virginia's history, exceeded only by 1986 and 1987. RLP

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